

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 07-6

DATE: May 1, 2007

TO: Honorable Council President and Members of the City Council

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: Amendment to agreement with Actuarial Services Company

On Monday, April 30, a request for amendment to the agreement with Actuarial Services Company was presented to the City Council. The amendment would authorize expenditures up to \$900,000. The funding requested is as follows:

	Previously authorized: already expended	Increase requested: already expended	Increase requested: not expended	TOTAL REQUEST
General Fund (Reserves)	\$149,751	\$290,945	\$201,094	\$648,921
Enterprise Funds	\$60,249	\$117,055	\$80,906	\$261,079
TOTAL	\$210,000	\$408,000	\$282,000	\$900,000

This action specifically requests authorization of funds in the third and fourth columns ("Increase requested") for a total increase of \$690,000 (\$408,000 + \$282,000) and a withdrawal from the reserves of \$492,039 (\$290,945 + \$201,094), which is the General Fund portion.

Funds are needed to pay the company for services rendered. In addition, we support the ongoing work of the actuary, including projects that will assist our office in responding to requests by the Rules Committee for pension plan options and design analysis. However, we have several concerns to raise.

As we mentioned at the City Council meeting of April 30, 2007, the FY 2008 Proposed Budget includes an allocation of \$500,000 across City funds for these actuarial services. Since reserve funds are requested for the first \$900,000, this would be a total allocation of \$1.4 million for these services, pending another City Council-approved amendment to the agreement. The CFO stated at that meeting that the \$900,000 allocation is intended to cover services and projects for the duration of FY 2008, thus we recommend removing the allocation of \$500,000 from the FY 2008 Budget. If additional funds are required in excess of the \$900,000, the CFO should return to Council next fiscal year.


There are a couple of concerns we wish to raise with the current contract as well. We were

000281

CITY OF SAN DIEGO
M E M O R A N D U M

DATE: May 1, 2007

TO: Honorable Council President Peters and Council Members

FROM: Jay M. Goldstone, Chief Financial Officer 

SUBJECT: Additional Information Regarding the Contract for Actuarial Services

On Monday April 30, 2007, the City Council considered staff's recommendation to amend the contract with Actuarial Services Co. Several questions were raised and staff was requested to return with additional information.

Is retaining an actuary part of the Kroll remediation recommendations?

Yesterday when asked this question, I had responded no; however, after a reviewing of the Kroll Report, the answer should have been yes. In the Mayor's August 24, 2006 Memorandum, "Response to Remedial Recommendations Found in the Kroll Report", item 46 on page 11 reads, "The City should periodically, but no less frequently than every three years, retain its own actuary to review the SDCERS actuarial valuation and the assumptions used, and to provide an independent assessment of the valuation and its implications for the City." Item 47 on the same page reads, "The City must retain its own actuary responsible for determining for the City the cost of each proposed new retirement benefit and to issue a report thereon to the City Council before an ordinance is adopted conferring the benefit."

What were the services provided by Actuarial Services Company and the related costs?

Expert Witness for City Attorney	\$258,873
Calculation of City's Net Pension Obligation (CAFR)	17,904
Determination of Drop Cost Neutrality	58,752
Consultation on Strategies to Change System Design	45,042
Evaluate recommendations for negotiation proposals	25,752
Original contract work	<u>211,901</u>
TOTAL	\$618,224

000282

What funding is available in the fiscal year 2008 proposed budget and should we consider using these funds to cover next year's costs?

There is approximately \$500,000 included in the fiscal year 2008 budget. Staff's still recommends that the City Council approve the contract amendment of \$690,000 to both cover the full amount incurred to date \$618,224 and to provide an additional \$281,776 for both the remainder of this fiscal year and into next. Of this additional \$281,776, approximately \$197,000 will need to come from the City's General Fund Reserve.

If the City Council wishes to replenish these funds in fiscal year 2008, staff would include in the May Revise proposal to the fiscal year 2008 budget that the \$500,000 mentioned above be reduced by this \$197,000 and that the \$197,000 be designated to be transferred to the General Fund Reserve. This would bring the total transfer to Reserves included in the fiscal year 2008 budget to \$5,197,000.

What additional services will be provided by Actuarial Services Company?

The primary focus of Actuarial Services will be both assist the City in calculating the costs/savings associated with a thorough review of various Pension Plan amendment options as well as calculating the costs associated with any future proposed salary increases as the City enters into labor negotiations next year.

Jay M. Goldstone
Chief Financial Officer

Cc: Honorable Mayor Sanders
Ronne Froman, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst

000283

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE)52
5/02TO:
CITY ATTORNEY2. FROM (ORIGINATING DEPARTMENT):
Mayor3. DATE:
4/6/20074. SUBJECT:
First Amendment to Agreement with Actuarial Service Company, P.C5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.):
Jay Goldstone, 236-5941, MS96. SECONDARY CONTACT (NAME, PHONE & MAIL STA.):
Lynne Rich, 236-59417. CHECK BOX IF REPORT TO
COUNCIL IS ATTACHED ☐

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND	See Attached Allocation				9. ADDITIONAL INFORMATION / ESTIMATED COST: \$492,039 General Fund unallocated reserves; total cost to City of \$690,000
DEPT.	Schedule				
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	CFO/ORG. DEPT.		4/11/07		CITY ATTORNEY		4-12-07
2							
3	AUDITOR/CONTROLLER		4/12/07				
4							
5	LIAISON OFFICE		4/12/07				
6							
7							

DOCKET COORD: _____ COUNCIL LIAISON: ES 4/12/07

☒ COUNCIL PRESIDENT
☐ SPOB ☐ CONSENT ☒ ADOPTION
☐ REFER TO: _____ COUNCIL DATE: 4/30/07

11. PREPARATION OF: ☐ RESOLUTION(S) ☒ ORDINANCE(S) ☐ AGREEMENT(S) ☐ DEED(S)

1. Approve Amendment to Agreement between the City of San Diego and Actuarial Service Company, P.C. for actuarial consulting services to increase the contract by \$690,000 for a total amount not to exceed \$900,000.

2. Authorizing the City Auditor and Comptroller to appropriate \$492,039 from the General Fund Unallocated Reserve to General Fund Citywide Program Expenditures (Dept. 601/ Org. 3305).

3. Authorizing the City Auditor and Comptroller to allocate the expenditures across all funds using an allocation based upon full-time employee salaries. (See Allocation Schedule Attached).

11A. STAFF RECOMMENDATIONS:

Approve Ordinance

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): All

COMMUNITY AREA(S): All

ENVIRONMENTAL IMPACT: N/A

HOUSING IMPACT: N/A

OTHER ISSUES:

After ordinance and agreement have been processed with City Clerk, please provide a copy to DCA Kim Harris at MS59.

000285

EXECUTIVE SUMMARY SHEET

DATE ISSUED:

REPORT NO.:

ATTENTION:

ORIGINATING DEPARTMENT: Mayor

SUBJECT: Amend Contract with Actuarial Service Company, P.C

COUNCIL DISTRICT(S):

CONTACT/PHONE NUMBER:

REQUESTED ACTION: Approve the amendment to the agreement with Actuarial Service Company, P.C. and authorize the Mayor, or designee, to execute the Amendment to the Agreement on behalf of the City of San Diego and appropriate \$492,039 from unappropriated reserves to Citywide Program. (Dept. 601/3305)

STAFF RECOMMENDATION:

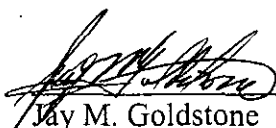
EXECUTIVE SUMMARY: June 19, 2006, the City entered into a contract with Actuarial Service Company, P.C. in the amount of \$210,000 to provide actuarial consulting services with respect to issues pertinent to an evaluation of the actuarial soundness of the City's retirement system; as outlined in the contract on file in the office of the City Clerk as document number C-14160. The City requires further services from the firm consistent with the attached scope of services. The compensation will be increased to a not-to-exceed total of \$900,000.

FISCAL CONSIDERATIONS: This amendment will increase the City's expenses by \$690,000. This amount is to be distributed among City funds based on the Fiscal Year 2007 pensionable salaries. The General Fund allocation of \$492,039 will be from the General Fund unallocated reserves. Other funds will absorb the expense within existing appropriations.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: Mayoral Action approved by 1544 on file with the City Clerk as document number C-14160, authorizing the City to enter into the agreement with Actuarial Service Company, P.C. in an amount not to exceed \$210,000.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):



Jay M. Goldstone
Chief Financial Officer

000287

Distribution of Expenses
Pensionable Salaries Fiscal Year 2007

Total Amount:

\$690,000

Line	CY/PY	Fund	Dept	Org	Account	Job Order	Amount	Percentage
001	0	100	601	3305	4151	003305	\$492,039	71.31%
002	0	41400	730	100	4151	002150	\$5,865	0.85%
003	0	41200	750	1001	4151	001002	\$1,311	0.19%
004	0	41200	751	1002	4151	001500	\$2,829	0.41%
005	0	41200	752	1000	4151	000110	\$5,658	0.82%
006	0	41200	753	010	4151	002000	\$1,794	0.26%
007	0	41200	754	020	4151	004229	\$483	0.07%
008	0	41210	755	1002	4151	001500	\$1,380	0.20%
009	0	41210	757	020	4151	004229	\$6,624	0.96%
010	0	41210	758	010	4151	001001	\$414	0.06%
011	0	41210	759	010	4151	002010	\$1,173	0.17%
012	0	41500	760	163	4151	000163	\$56,649	8.21%
013	0	41506	776	455	4151	776260	\$67,206	9.74%
014	0	41100	720	2000	4151	001101	\$1,173	0.17%
015	0	50050	850	2000	4151	085010	\$8,901	1.29%
016	0	50050	5431	100	4151	543100	\$4,071	0.59%
017	0	41300	1311	1100	4151	001110	\$345	0.05%
018	0	41300	1312	1250	4151	000100	\$2,415	0.35%
019	0	41300	1313	1310	4151	001310	\$10,143	1.47%
020	0	41300	1314	1410	4151	001110	\$5,865	0.85%
021	0	41300	1316	1610	4151	001110	\$8,556	1.24%
022	0	41300	1317	1720	4151	001110	\$5,106	0.74%

Total:

\$690,000

100.00%

Analysis: Audit Department March 2007

000288

Estimated General Fund Working Capital/Reserve (Unaudited)
As of April 11, 2007

2006 Ending Cash or Equity in Pooled Cash and Investments	30,607,930
Receivables (Due Within 60 Days)	59,768,977
Payables	(29,208,156)
Working Capital Beginning Balance	<u>61,168,751</u>
Encumbrances	(19,517,508)
Other Restrictions	(460,741)
	<u>(19,731,581)</u>
Total Working Capital at 07-01-06	<u><u>41,437,170</u></u>

Actions Taken Since 7-1-06	
Additional Contribution included in fy 2007 Budget	7,200,000
Taylor Street Slope Reconstruction - (Advance/Loan)	(1,226,848)
Latham Watkins and Levine Steinberg legal services	(2,000,000)
SEC Investigation Legal costs	(101,260)
Outside Legal Services	(433,000)
SEC Investigation Legal costs	(503,073)
Return of SR-56 Advance	10,410,800
Lobbying Contract	(221,000)
Audit Services - Macias, Gini & O'Connell	(327,325)
Legal Services - SDPOA vs Aguirre & Aaron vs City	(1,000,000)
Legal Services - Otay Acquisition, Natl Enterprise & Border Bus.	(200,000)
Legal Services - McGuigan vs City of San Diego	(142,620)
Audit Services - KPMG	(1,320,000)
SEC Oversight Consultant	(1,417,400)
Investigation costs - former and current City officials	(534,000)
Settlement of Personnel Claim	(65,000)
Legal Services - Otay Acquisition, Natl Enter. & Boarder Bus Pk	(200,000)
Parks & Recreation	(1,498,250)
Midyear Budget Adjustments	(5,390,944)
Total Actions Taken to Date	<u>1,030,080</u>

Working Capital as of April 11, 2007	<u><u>42,467,250</u></u>
---	--------------------------

Amendment to Actuary Contract	(492,039)
-------------------------------	-----------

Working Capital Following Proposed Action	<u><u>41,975,211</u></u>
--	--------------------------

The City of San Diego
CERTIFICATE OF CITY AUDITOR AND COMPTROLLER

000289

CERTIFICATE OF UNALLOTTED BALANCE

ORIGINATING

AC 2700657

DEPT. NO.: 055

I HEREBY CERTIFY that the money required for the allotment of funds for the purpose set forth in the foregoing resolution is available in the Treasury, or is anticipated to come into the Treasury, and is otherwise unallotted.

Amount: _____ Fund: _____

Purpose: _____

Date: _____ By: _____

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT
TOTAL AMOUNT											

FUND OVERRIDE ☐

CERTIFICATION OF UNENCUMBERED BALANCE

I HEREBY CERTIFY that the indebtedness and obligation to be incurred by the contract or agreement authorized by the hereto attached resolution, can be incurred without the violation of any of the provisions of the Charter of the City of San Diego; and I do hereby further certify, in conformity with the requirements of the Charter of the City of San Diego, that sufficient moneys have been appropriated for the purpose of said contract, that sufficient moneys to meet the obligations of said contract are actually in the Treasury, or are anticipated to come into the Treasury, to the credit of the appropriation from which the same are to be drawn, and that the said money now actually in the Treasury, together with the moneys anticipated to come into the Treasury, to the credit of said appropriation, are otherwise unencumbered.

Not to Exceed: \$690,000.00

Vendor: Actuarial Service Company

Purpose: Authorizing the expenditure of funds for the first amendment to contract to provide consulting services with respect to issues pertinent to an evaluation of the actuarial soundness of the City's Retirement System. (see also AC2700132 and AC2700625 related to initial \$210,000 authorization)

Date: April 10, 2007 By: 

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT

ORDINANCE NUMBER O-_____ (NEW SERIES)

DATE OF FINAL PASSAGE _____

AN ORDINANCE AMENDING ORDINANCE NO. O-19522 (NEW SERIES) ENTITLED "AN ORDINANCE ADOPTING THE ANNUAL BUDGET FOR THE FISCAL YEAR 2006-2007 AND APPROPRIATING THE NECESSARY MONEY TO OPERATE THE CITY OF SAN DIEGO FOR SAID FISCAL YEAR," BY AUTHORIZING THE AUDITOR AND COMPTROLLER TO APPROPRIATE AND TO TRANSFER UP TO \$410,000 FROM SPECIFIED FUNDS TO THE GENERAL FUND, DEPARTMENT 601, TO PAY FOR ACTUARIAL SERVICES RENDERED BY ACTUARIAL SERVICE COMPANY, P.C., IN CONNECTION WITH THE EVALUATION OF THE ACTUARIAL SOUNDNESS OF THE CITY'S RETIREMENT SYSTEM

WHEREAS, the appropriation ordinance adopting the annual budget for fiscal year 2006-2007 was adopted on July 31, 2006, as ordinance number O-19522; and

WHEREAS, on June 19, 2006, the City entered into a contract with Actuarial Service Company, P.C. in the amount of \$210,000 to provide actuarial consulting services with respect to issues pertinent to an evaluation of the actuarial soundness of the City's retirement system; and

WHEREAS, the contract with Actuarial Service Company, P.C. is on file with the City Clerk's office as document number C-14160; and

WHEREAS, \$410,000 of additional funding, for a total contract amount not to exceed \$620,000 is required to pay Actuarial Service Company, P.C. for ongoing and additional actuarial evaluation services; and

WHEREAS, in order to provide additional funds under the contract with Actuarial Service Company P.C., the City Council must authorize such additional requested not to exceed amounts; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That the Auditor and Comptroller is authorized to appropriate and to transfer up to \$410,000 from the funds and in the amounts identified in Exhibit "A," attached hereto, to the General Fund, Department 601 to fund the above-referenced actuarial services.

Section 2. That the Mayor or his designee, the Chief Financial Officer, is authorized to execute an amendment to the contract with Actuarial Service Company, P.C., to increase the amount payable under the contract in accordance with the terms set forth herein.

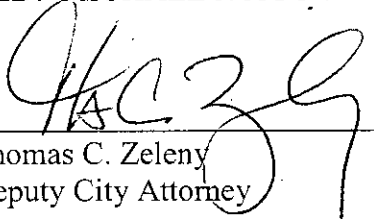
Section 3. That a full reading of this ordinance is dispensed with prior to its final passage, since a written copy was made available to the City Council and the public prior to the day of its passage.

Section 4. That this ordinance is declared to take effect and be in force immediately upon its passage after two public hearings pursuant to the authority contained in Sections 71, 275 and 295 of the Charter of the City of San Diego.

Section 5. That the Mayor shall have no veto power over this ordinance pursuant to Section 280(a)(4) of the Charter of the City of San Diego.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By


Thomas C. Zeleny
Deputy City Attorney

TCZ:KKH:kat:mb
05/30/07
05/01/07 Corr.
05/02/07 Corr.2
Aud.Cert:2600657
Or.Dept:CFO/Mayor

The City of San Diego
CERTIFICATE OF CITY AUDITOR AND COMPTROLLER

000293

CERTIFICATE OF UNALLOTTED BALANCE

ORIGINATING

AC 2700657

DEPT. NO.: 010

I HEREBY CERTIFY that the money required for the allotment of funds for the purpose set forth in the foregoing resolution is available in the Treasury, or is anticipated to come into the Treasury, and is otherwise unallotted.

Amount: _____ Fund: _____

Purpose: _____

Date: _____ By: _____

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT
TOTAL AMOUNT											

FUND OVERRIDE ☐

CERTIFICATION OF UNENCUMBERED BALANCE

I HEREBY CERTIFY that the indebtedness and obligation to be incurred by the contract or agreement authorized by the hereto attached resolution, can be incurred without the violation of any of the provisions of the Charter of the City of San Diego; and I do hereby further certify, in conformity with the requirements of the Charter of the City of San Diego, that sufficient moneys have been appropriated for the purpose of said contract, that sufficient moneys to meet the obligations of said contract are actually in the Treasury, or are anticipated to come into the Treasury, to the credit of the appropriation from which the same are to be drawn, and that the said money now actually in the Treasury, together with the moneys anticipated to come into the Treasury, to the credit of said appropriation, are otherwise unencumbered.

Not to Exceed: \$410,000.00

Vendor: Actuarial Services Company, P.C.

Purpose: First amendment of contract to provide consulting services with respect to issues pertinent to an evaluation of the actuarial soundness of the City's retirement system.

Date: May 10, 2007 By: 

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT
TOTAL											

AC-361 (REV 2-92)

FUND OVERRIDE ☐

AC 2700657

000294

Distribution of Expenses
Pensionable Salaries

Total Amount: \$ 410,000.00

Line	CY/PY	Fund	Dept	Org	Account	Job Order	Amount	Percentage
001	0	100			9544		292,371.00	71.31%
002	0	41400	730	100	4151	002150	3,485.00	0.85%
003	0	41200	750	1001	4151	001002	779.00	0.19%
004	0	41200	751	1002	4151	001500	1,681.00	0.41%
005	0	41200	752	1000	4151	000110	3,362.00	0.82%
006	0	41200	753	010	4151	002000	1,066.00	0.26%
007	0	41200	754	020	4151	004229	287.00	0.07%
008	0	41210	755	1002	4151	001500	820.00	0.20%
009	0	41210	757	020	4151	004229	3,936.00	0.96%
010	0	41210	758	010	4151	001001	246.00	0.06%
011	0	41210	759	010	4151	002010	697.00	0.17%
012	0	41500	760	163	4151	000163	33,661.00	8.21%
013	0	41506	776	455	4151	776260	39,934.00	9.74%
014	0	41100	720	2000	4151	001101	697.00	0.17%
015	0	50050	850	2000	4151	085010	5,289.00	1.29%
016	0	50050	5431	100	4151	543100	2,419.00	0.59%
017	0	41300	1311	1100	4151	001110	205.00	0.05%
018	0	41300	1312	1250	4151	000100	1,435.00	0.35%
019	0	41300	1313	1310	4151	001310	6,027.00	1.47%
020	0	41300	1314	1410	4151	001110	3,485.00	0.85%
021	0	41300	1316	1610	4151	001110	5,084.00	1.24%
022	0	41300	1317	1720	4151	001110	3,034.00	0.74%

Total: 410,000.00 100.00%

Exhibit A to O-2007-129 (Rev.)

FIRST AMENDMENT TO AGREEMENT

THIS FIRST AMENDMENT TO AGREEMENT is made between the City of San Diego [City], a municipal corporation and a charter city, and Actuarial Service Company, P.C. [Firm].

RECITALS

WHEREAS, the City entered into a contract with the Firm on June 19, 2006, document number C-14160 in an amount not to exceed \$210,000 to provide actuarial consulting services with respect to issues pertinent to an evaluation of the actuarial soundness of the City's retirement system [Agreement]; and

WHEREAS, the Compensation of the Agreement has exceeded the amount the City appropriated for such services and the City has need of the Firm's services with regard to consulting services pertaining to the retirement system and to the pension litigation; and

NOW THEREFORE, in consideration of the terms and conditions set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties mutually agree as follows:

Section 1 of the Agreement, Scope of Services, is hereby amended to read:**1. Scope of Services****A. Consulting Tasks:**

The Firm agrees to accomplish the following consulting tasks as requested by the City. Specifically the Firm shall evaluate actuarial funding assumptions, including but not limited to, the following items:

- Investment return
- Inflation Rate
- Interest credited to member contributions
- Salary increase rate

000296

- Cost-of-living increase in benefits
- Load for COLA annuity benefits
- Member refunds
- Rates of termination
- Rates of disability
- Rates of mortality for active, retired healthy and retired disable SDCERS members
- Rates of retirement
- Rates of marriage
- Member contributions for spousal continuance
- Deferred member benefits

In addition, the Firm shall analyze and compare actuarial funding methods, including but not limited to, the following items:

- Projected Unit Credit method analysis (currently being used), Entry Age Normal analysis (most commonly used) and Aggregate analysis (aids in setting the amortization period for the unfunded actuarial accrued liability)
- Present value of accumulated benefits (tests ability to liquidate the plan)
- Actuarial value of assets (smoothing)
- Amortization period for the unfunded actuarial accrued liability

In addition, the Firm shall determine an estimate of the true funded status of SDCERS under various actuarial funding assumptions and methods, including but not limited to, the following items:

- Use the history of the system, together with projections for the future, to set assumptions related as closely as possible to expectations
- Use present June 30, 2005 valuation results prepared by Cheiron using PUC, EAN, PVAB, current asset smoothing method and recommended asset smoothing method to set base funded status rate

000297

- Use sensitivity analysis to gage the effect of actual experience differing from assumed experience over a period of five years into the future (through June 30, 2010)
- Estimate true funded status incorporating assumptions related as closely as possible to expectations and using sound estimation procedures
- Determine the optimum amortization period
- Comment on fixed versus rolling amortization period
- If the size of health care liability is determined to be material to the true funded status of SDCERS, estimate the value thereof
- Prepare a cash flow estimate under worst case, best case and assumed case scenarios 75 years into the future
- Assist in setting acceptable probability of depleting the SDCERS assets over the period of 75 years

In addition, the Firm shall provide the following consulting services:

- Prepare a synopsis of the SDCERS benefit structure and compare it to that of similar size cities (considering Social Security coverage versus lack thereof)
- Identify the SDCERS group characteristics
- Comment on benefit adequacy
- Trace benefit and actuarial method and assumption changes since July 1, 1990
- Develop pattern of change in required city contribution rate and funded status since July 1, 1990
- As a result of the preceding, determine the true pension issue
- Provide recommendations to solve the pension issue.

In addition, as requested by the City Attorney, the Firm shall provide and be available to the City Attorney to provide expert testimony and consulting advice with regard to ongoing litigation regarding pension issues.

B. Direction of Services:

000298

- (1) General Services under this Agreement shall be performed under the direction of the Chief Financial Officer, Jay Goldstone, the City Attorney or other designated representative of the City Attorney's Office.
- (2) In light of the variability of the time and complexity of the issues involved in the Project, the Firm and the City agree to consult regularly, and at least monthly, as to the level of effort by the Firm which is appropriate in performing the services under this Agreement.
- (3) The Firm agrees to prepare, if requested, a written plan and budget for actuarial consulting services to be agreed upon by the City Attorney's Office and the Firm. If so requested, the City shall not be obligated to pay the Firm amounts not documented, budgeted, and agreed to in writing before being incurred by the Firm.

Section 2 of the Agreement, Compensation, is hereby amended to read:

2. Compensation

A. Maximum Contract Amount:

- (1) The City has appropriated or otherwise duly authorized the payment of an additional amount of \$690,000, for a total not to exceed \$900,000 for consulting services and out-of-pocket disbursements for the term of this Agreement for authorized services performed at the direction of the City. This section 2.A (1) notwithstanding, if the Firm is asked to provide expert testimony and consulting service with regard to ongoing litigation regarding pension issues, the Firm shall be paid at a rate of \$240.00 per hour, and may require an amendment to the contract.
- (2) Other than the charges for expert testimony and consulting service with regard to ongoing litigation regarding pension issues, the City shall not be obligated to pay the Firm more than \$900,000 in total unless the City makes additional amounts available for the performance of additional consulting services under this Agreement. Additional services and compensation must be agreed to in a writing executed by the City and the Firm.

B. Allocation of Work:

The Firm shall not use any personnel, other than administrative support and such other technical support at a per hourly rate not greater than \$100 per hour, not identified for the same specific task without the City's written approval. The Firm shall use the minimum number of professionals for this engagement consistent with good professional practice after consulting with and obtaining written approval by the City.

C. Travel Time:

Air travel and associated expenses require the prior written approval of the City. Travel time not devoted to the performance of client services under this Agreement shall not be charged to the City.

D. Out-of-Pocket Disbursements:

The City agrees to reimburse the Firm, in accordance with the procedures set out here, for telephone, facsimile, mail, messengers, federal express deliveries, and similar out-of-pocket expenses charged by the Firm as a standard practice to its clients. In any billing for disbursements, the Firm shall provide the City with a statement breaking down the amounts by category of expense.

The following items will not be reimbursed, unless the City has specifically agreed to accept the following expenses:

- (1) Word Processing, clerical or secretarial charges, whether expressed as a dollar disbursement or time charge.
- (2) Storage of open or closed files, rent, electricity, air conditioning, local telephone, postage, receipt or local transmission of facsimile documents, rental of equipment including computers, meals served at meetings, or any other items traditionally associated with overhead.
- (3) Any other service in excess of the amount actually expended by the Firm for such service. The City will not pay for any incremental amount, whether it is intended to recover the cost of equipment and hardware or not.
- (4) Photocopy charges in excess of \$.10 (ten cents) per page.
- (5) Auto mileage rates in excess of the rate approved by the Internal Revenue Service for business reimbursement.
- (6) Overtime compensation. Where case requirements demand overtime, the City will consider reimbursement on a case-by-case basis. The City will not reimburse overtime incurred for the convenience of the Firm where the deadline was known in advance.
- (7) Equipment, books, periodicals, research materials, online research, Westlaw/Lexis or like items.
- (8) Express charges, overnight mail charges, messenger services or the like, without the City's prior consent. The City expects these expenses to be incurred in emergency situations only. Where case necessity requires the

000300

use of these services, the City will consider reimbursement on a case-by-case basis.

- (9) Air travel fares in excess of economy or coach class fares; lodging, meals, and ground transportation expenses in excess of \$300 per day.
- (10) Videotaping of depositions, investigative services, outside photocopying, and computer support services unless the City gives prior written approval.

F. Records:

The individual disbursement records customarily maintained by the Firm for billing evaluation and review purposes shall be made available to the City in support of bills rendered by the Firm.

G. Invoices:

If requested, the Firm agrees to forward to the City a statement of account for each one month (or, if requested by the City, two-week) period of services under this Agreement, and the City agrees to compensate the Firm on this basis.

The Firm, if requested, will submit monthly invoices to the Chief Financial Officer, with a copy to City Attorneys' Office, the 15th of each month for services rendered the previous month. Invoices shall include a distinct identification number. Both the amount invoiced for the billing period and the total amount then owed (the balance forward) shall be set forth. Invoices shall provide detailed billing information including, but not limited to, a detailed description of the service rendered, date of service, personnel time devoted to service, personnel name, billing rate, and total amount billed for each service. Invoices will also include a breakdown of all Disbursements by category of expense. A receipt for each category of expense must accompany the invoice to qualify for reimbursement by the City. The parties agree that if the City questions any item on an invoice, the Firm will provide all supporting information to substantiate the billing and will make any appropriate adjustments.

IT IS AGREED:

CITY OF SAN DIEGO

Date: _____

By: _____
Jay Goldstone, Chief Financial Officer

000301

ACTUARIAL SERVICE COMPANY, P.C.

Date: 04/16/2007

By: Joseph Esuchanko
Joseph Esuchanko

APPROVED AS TO FORM AND LEGALITY:

CITY OF SAN DIEGO
Michael Aguirre, City Attorney

Date: _____

By: _____
Kimberly K. Harris
Deputy City Attorney